DIY Industry update

Chain president buys Sunset

TUCSON, Ariz.—In a deal valued at $2.03 million, five-unit Sunset Industries has been bought by the home center chain's chairman and president, Harold Kitay, and members of his family.

Prior to completion of the transaction Nov. 2, Sunset Industries was a publicly held company. Kitay and his family purchased 406,000 shares outstanding at $5 apiece to take control of the company.

Sunset, with estimated 1982 sales of $11 million, runs four stores in southern Arizona under the trade name Handy Andy and one store called Sunset Lumber & Distributors.

Under terms of the deal, a newly created company called New Sunset Inc., controlled by Kitay, acquired Sunset Industries' stock.

L-P/Sutherland deal still pending

PORTLAND, Ore.—Louisiana-Pacific officials continue to refuse comment on negotiations under way to sell the company's seven-unit home center chain (*NHCN*, Oct. 25).

"I have no new news on that," spokesman Barry Lacter said, declining to confirm or deny that Sutherland Lumber is interested in acquiring LP Home Centers in California.

In an unrelated move, Louisiana-Pacific announced it has reached an agreement in principle to sell its Rocklin, Calif., medium density fiberboard plant to Roseburg Lumber, a privately owned forest products company based in Oregon.

Lacter said the sale was required by the Federal Trade Commission as part of Louisiana-Pacific's 1978 acquisition of Fiberboard Corp. The Rocklin plant has an annual capacity of 75 million sq. ft. on a ¾-in. basis.

Terms of the agreement were not disclosed.

Diamond merger meeting set

NEW YORK—Diamond International stockholders will meet Dec. 1 to consider a definitive agreement to merge the company with one in which British financier Sir James Goldsmith is affiliated.

If holders of 85% of the outstanding Diamond common stock approve the agreement and certain other conditions are met, each stockholder will receive $44.50 in cash per share tendered in the merger. Holders of record of Diamond stock as of Nov. 5 are eligible to vote at the meeting.

Recently, Diamond has been selling off some of its holdings, but its retail division seems destined to stay part of the company.

"I'm led to believe that Sir James wants us because we are making money and doing well," said Diamond's retail vice president Richard Cushman. "Every nuance that he has given to us indicates that he likes our team, that we're doing a good job and that he's hopeful for us in the future.

"Our 1983 budgets are based on the continuation of our business as is."

Diamond operates 118 homes centers throughout the country.

In the third quarter ended Sept. 12, Diamond officials said, the retail division was profitable but was performing "well below its characteristic earnings pattern reflecting low construction activity and reluctant consumer spending in the weak national economy."

Specific retail figures were unavailable, but overall, Diamond had a 33% increase in net income to $7.3 million although sales from continuing operations decreased 8% to $232.6 million in the 12-week quarter compared to the same period a year ago.

Goldsmith's Diamond Acquisition Inc. has secured a detailed commitment letter from several banks to borrow $455 million needed to finance the merger.

Generale Occidental S.A. of which Goldsmith is chairman holds nearly 40% of Diamond's 13.7 million common shares.

Hechinger development fund to repay loan, revitalize area

WASHINGTON—Hechinger Enterprises will channel the repayment of a $3.2 million Federal loan into a special fund set up to revitalize Washington, D.C.'s northeast corridor in a unique move by the home center chain to bring new business to the area.

The plan represents "the first time that Urban Development Action Grant loan repayments have been utilized to leverage other private monies," Hechinger president John Hechinger Sr. said. The Government loan was used by the home center chain to build the 40-store Hechinger Mall in northeast Washington last year.

Rather than repay the loan to the Government, Hechinger asked Housing and Urban Development and D.C. officials if the money could be used as a catalyst for economic growth in the community. With their approval, the home center chain set up the Community Foundation's Northeast Urban Revitalization Fund which will receive payments totaling $3.2 million over the next 20 years.

During the first three years, repayments will be earmarked for an advisory fund that will review projects proposed for funding. Hechinger officials said that "assistance will be flexible, including grants, loans at below-market interest rates, loan guarantees, guaranteed lines of credit and technical assistance."

Future installments will be used for the "furtherance of minority business development and other economic revitalization activities in the H Street, N.E. urban renewal area," Hechinger maintained.

H.U.D. officials applauded the plan, maintaining that the "community will benefit twice" from the same loan. Hechinger officials said that the original loan created jobs, new tax revenues and community services and that the new plan will provide additional "ripple effects" for the city.

In addition to the revenues provided by Hechinger, the Greater Washington Community Foundation agreed to match their funds, and since 1981 has already succeeded in raising $1.3 million, Hechinger said.

All American expects $ savings from energy management system

DOWNEY, Calif.—Ray Wolfe will never forget the night the lights went out at All American Home Center.

The independent had just installed its new, $30,000 Scientific-Atlanta energy management system. But the store was plunged into total darkness at 9:20 p.m., during All American's monthly department head meeting.

"It was embarrassing," said Wolfe, store manager and in charge of All American's brand-new, computer-run lighting, heating and air-conditioning system.

Wolfe's programming abilities were only in doubt for a few moments. The power failure was traced to a source outside the home center, and within six minutes lights were restored and the meeting continued.

In fact, said Wolfe, the Scientific-Atlanta system has had few if any glitches since its installation last May by Pacific Management Inc., Torrance, Calif. The system's payback period was expected to take nine months, but Wolfe said the recently completed building materials department expansion has created additional lighting consumption, extending the payback period an additional three months.

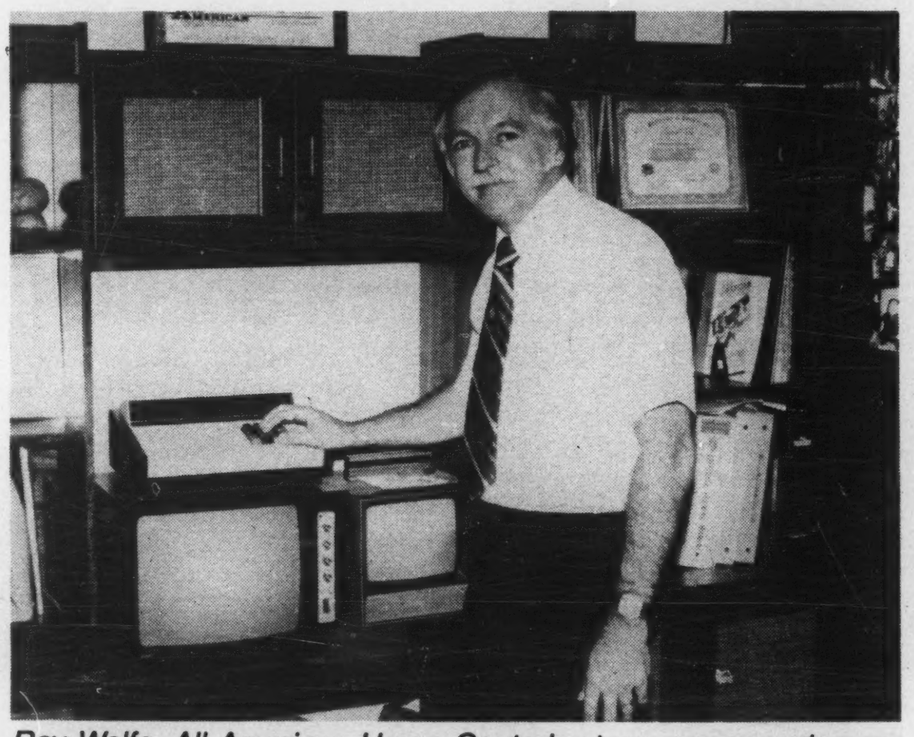
Nonetheless, All American will reduce its $148,886 annual energy costs by $16,137 in the first 12 months, Wolfe said. The savings is significant because energy costs in southern California are increasing 20% yearly.

Wolfe is particularly pleased with savings associated with lighting costs. All American is reducing total kilowatt usage by 90 minutes a day, amounting to a $6,500 yearly savings. The cut in lighting costs is achieved through precise scheduling of the store's 277 fluorescent bulbs hooked into the system. In addition, the system uses photo cells to eliminate the unneeded use of lights near skylights and exits during daylight hours when outside light is sufficient.

At the heart of the system is a display unit that is attached to a master-control keyboard manually programmed by Wolfe. From there, existing power wiring transmits "control" signals to remote switches that turn on and off the various units. Wolfe said this system eliminated the need for time-consuming and costly installation of additional wiring.

He explained that the master control unit sends a high-frequency signal through the electrical wiring to the remote control units located on air-conditioners, heaters and lights. Wolfe has included the newly finished building materials department under the

(Continued on page 27)



Ray Wolfe, All American Home Center's store manager, demonstrates the wireless Scientific-Atlanta Commercial Energy Management System recently installed in the 160,000-sq.-ft. Downey, Calif., outlet.

NHCN photo

Met intros phone order service

NEW YORK—Metropolitan Lumber and Hardware, the three-store chain based in midtown Manhattan, has taken another step in its aggressive pursuit of this specialized urban market with the introduction of an order-it-by-phone service.

The program was launched late last month in one of Metropolitan's weekly *New York Times* ads, where the company regularly refers to itself as The Met, an echo of New York sports and culture.

The service is aimed at busy New Yorkers who have learned to let their fingers do the walking and possibly their secretaries do the calling, since corporate accounts are specifically welcomed.

Free delivery is provided on orders of $100 and more, with a $15 delivery charge added to purchases below that minimum. With two stores in Manhattan and one in Queens, the company's program is aimed basically at those boroughs.

A wider delivery radius may be possible with larger orders, a Metropolitan spokesman said.

All calls are routed through the midtown store on 11th Avenue between 45th and 46th Streets to eliminate confusion and provide assistance in product selection for DIY-ers.

National Home Center News

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Vol. 8, No. 24 November 22, 1982

NHCN Report: Retail Management Systems

Independents turning to in-house computers

By Wyatt Kash
NHCN executive editor

NATIONAL REPORT—Approximately half of the nation's independent home center and building material dealers in a new poll now use in-house computers for billing and accounts receivable and to prepare sales analyses.

Another 35% use their own computers to control inventory. In fact, dealer-owned computers are even being used for financial analysis by 29% of today's dealers.

While major home center chains have been using high-powered computers for more than a decade, in-house computers have now become an inevitable investment for nearly every independent home center operator.

A survey due to be released this month, however, by the National Lumber and Building Material Dealers Assn., Washington, sheds new light on where computers are being applied, the criteria behind their purchase and why many dealers are still reluctant to plug in to the technological realities of running a business in the 1980's.

In-house computers are used most frequently to process accounts receivable and billing operations, according to 116 NLBMDA members and 40 more belonging to the Middle Atlantic Lumbermens Assn.

On average, those dealers generate $6,038,535 in sales volume, carry $1,061,752 in inventory and have $601,771 in accounts receivable. Lumber and building supplies account for 68% of their product sales;44% of their business is retail, 45% is to contractors and 11% is from "other" types of business.

A total of 87 dealers, or 56%, now use in-house computers to handle accounts receivable operations, compared to about a fifth of the dealers who still use bookkeeping machines; 15% perform the operation manually, and 10% use an outside service.

While billing is done using an in-house computer by 49% of the dealers, one-third still prepare invoices by hand. The task involves processing 3,664 cash invoices and 3,823 charge invoices a month, dealers reported on average.

Only a handful, or about 8%, use computers to process purchase orders, which are still done by hand at 78% of the dealers.

Inventory control is also maintained manually by 55% of the dealers, although 55 of the 156 respondents now use in-house computers to control an average of 3,344 inventory items. Not all items carried by the dealers are actually controlled using computers, however.

One aberration in the growing use of computers occurs in the processing of payrolls, the survey showed. While 38% of the dealers use in-house computers to handle payroll operations, 25% now use outside services to tackle the job; 26% do it by hand and 10% use bookkeeping machines.

Dealers are also using outside services in 14% of the cases to conduct a financial analysis of their company; 48% still do it by hand, but 29% now have their own computers programmed to analyze the financial health of their operation.

The cost of computers has by no means been cheap. Of those now using in-house computers, the initial cost for equipment, software (the programming used to perform the various accounting operations) and service averaged $63,819 and does not include an average $791 per month in maintenance and license fees.

However, 94% of those respondents said the cost was justified; 6% said it was not.

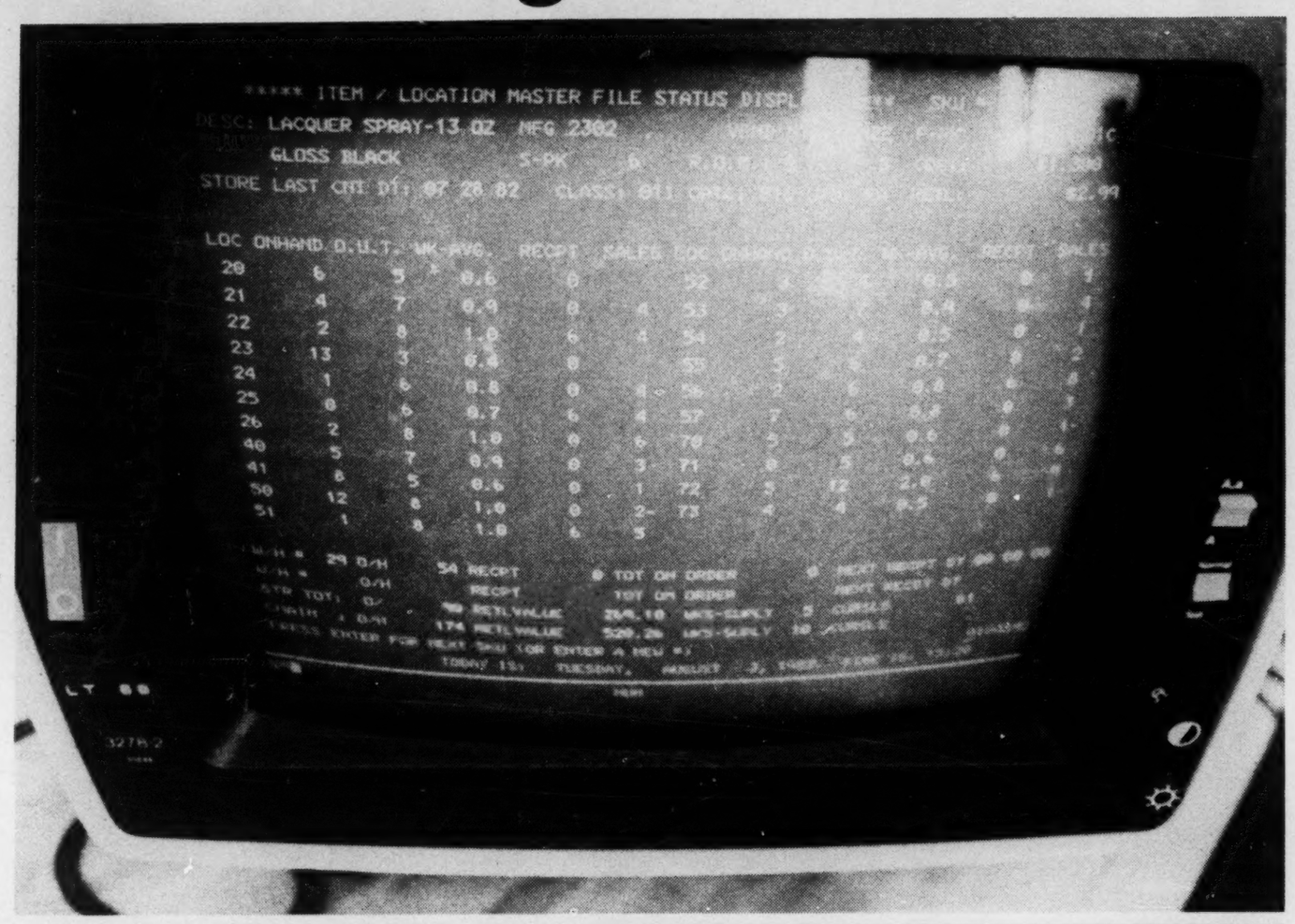
When viewed in light of ongoing costs, in fact, computers proved relatively economical: monthly charges for bookkeeping equipment average $529, while charges for outside service firms average $1,710 per month for those who use them. Outside agencies are still a viable alternative for some dealers, since the initial cost typically averages $1,750 among the dealers surveyed.

Overall, 4 out of 5 dealers using in-house computers said that accounts receivable, inventory control and sales analysis programs provide over 80% of the benefits to be derived.

Dealer satisfaction with computer supplies, however, indicates there is still plenty of room for improvement on the part of vendors in helping dealers get their systems on line.

While 77% of those now using in-house computers said computer companies "had provided quality service as expected," only 61% were satisfied with the training provided by those companies.

Dealers said the primary reasons they chose the system they did were reliability, followed by service, ease of use and vendor training programs and operating manuals.



More than half of the independent home center and building material dealers polled by the NLBMDA use company-owned or leased computers for some of their day-to-day accounting chores.

Altogether, 59% of the dealers ranked their satisfaction with in-house computers as "high" while 39% said it was "medium" and only 2% said it was "low."

By and large, a higher proportion of dealers with sales volume in the $2 million to $5 million range appear to be using in-house computers than those with sales in excess of $5 million or less than $2 million.

While the NLBMDA survey indicates that in-house computers are becoming increasingly prevalent among independent dealers, the fact remains that more than half of the dealers surveyed have yet to incorporate computers in day-to-day operations, with the exception of accounts receivable operations.

Most dealers cite the purchase price as the primary reason they have put off buying computer equipment. However, the second-most frequently mentioned reason is a lack of confidence in the service capabilities of manufacturers. Many dealers noted that the "nightmarish" experience of other dealers has also influenced their decision not to purchase.

Two other objections exist, dealers say. One is difficulty of effectively evaluating competing computer systems—a problem the NLBMDA has attempted to address with a concurrent survey of leading computer system suppliers catering to the retail building supply field. (See story, page 12.)

The other concern is for the security of company information. Some dealers fear information could be lost or manipulated with a potentially disastrous effect on business.

Most dealers who have taken the computer plunge however, have found these fears somewhat unfounded. Of more concern to them are the problems that accompany life after marriage to high technology.

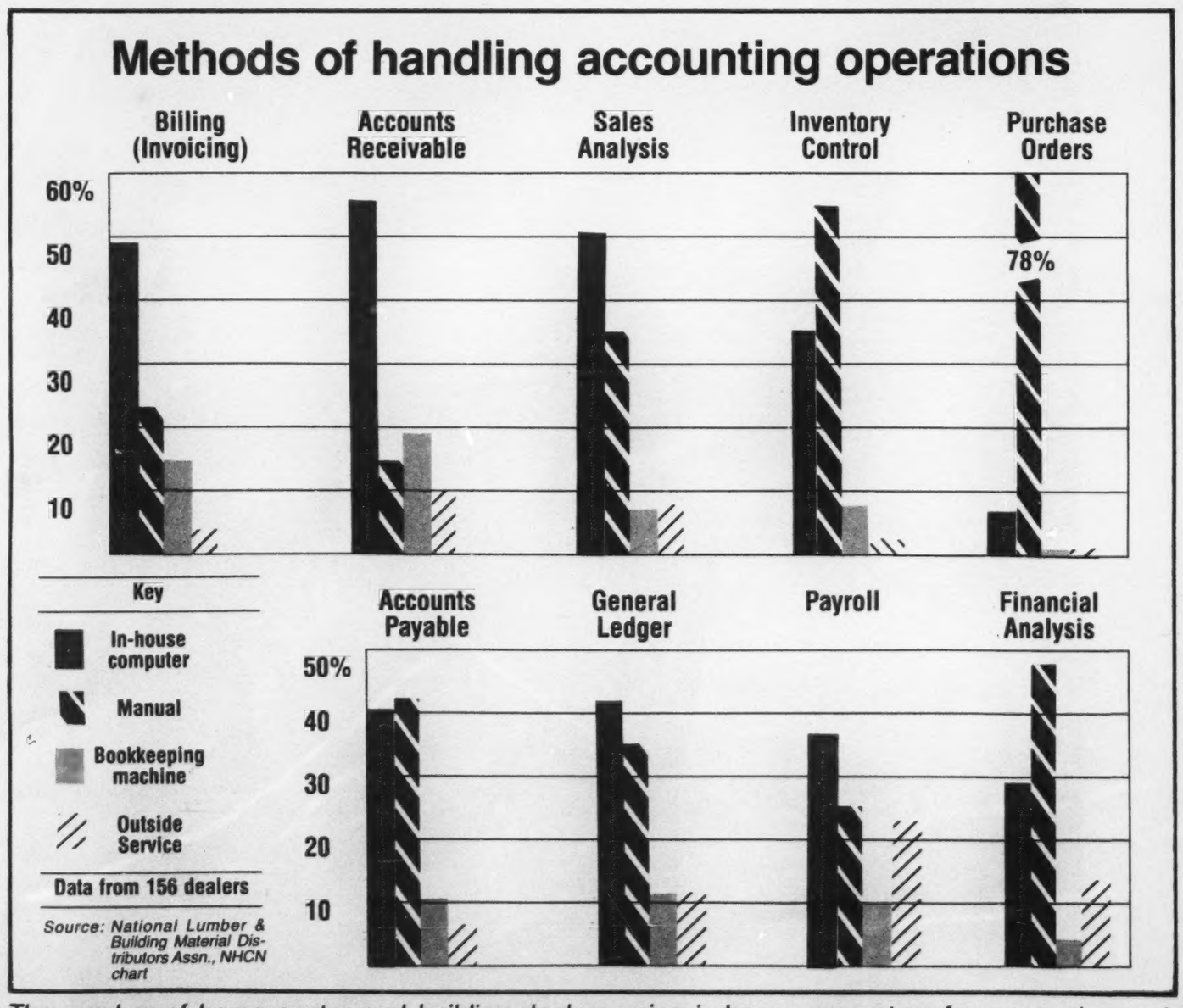
"In a small company, management does not have much time to use the system efficiently or be able to learn what it can do," lamented one dealer.

"The concept of our system is superior," noted another dealer, "but the application is very poor."

Many dealers complain that the hardware service is better than the software service. But more than one dealer commented that now that the system is running, "We're glad we have the ability to expand the system."

Whether computer systems will be commonplace in home center operations is no longer a question. For most dealers, it is more a matter of when, and how efficiently it can be put to use.

Industry observers note, however, that declines in computer equipment costs, along with the increasing availability of sophisticated programming tailored to building material dealers' needs have accelerated the pace at which dealers are now acquiring systems.



The number of home center and building dealers using in-house computers for accounting and general ledger chores now exceeds the number of those using manual systems, although inventory and purchasing operations are still done more often by hand, according to an NLBMDA poll.

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Profile: The Hechinger Co.—Pp. 12,57

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Sears slated to open separate home centers

New in-store look gives a glimpse of future Sears

HOUSTON—Sears has introduced what promises to be a major new look in its home improvement departments; and if the prototype unveiled here at Willowbrook Mall is any indication, the thrust is clearly aimed at winning a bigger chunk of DIY and home improvement business.

The new design, which debuted here in late October, represents a significant overhaul in product grouping and presentation.

Perhaps the most noticeable change is the new fixturing: the usual 5-ft. gondolas have been replaced with 6-ft. fixtures bearing attractive red-block panels set in chrome frames along the endcaps.

Together with new, bolder graphics, and a well-lit back wall treatment featuring more than 30 running feet of hand tools alone, the department strikes a brighter, more distinctive image, based on *NHCN*'s inspection.

Sears has moved to 6-ft. gondolas from 5-ft. fixtures in its Willowbrook Mall prototype in Houston. The new fixtures are part of a chainwide remerchandising effort to put more on the floor and provide better self-sell service to customers. NHCN photo

The new fixtures permit the stocking of more merchandise on the floor than Sears has presented in the past, lending a feeling of increased product depth and category dominance.

That feeling is enhanced by the new design, which has attempted to group related products more logically—particularly electrical, plumbing and hardware items and hand and power tools—making cross-merchandised products easier to find and simpler to buy.

In the past, observed one Sears buyer within the department, product adjacencies were often arranged more on the basis of who buys the product line at headquarters rather than how the customer shops for the items in the stores.

(Continued on page 64)

Two freestanding units are due in early 1983; 200 stores a possibility

CHICAGO—Sears, Roebuck & Co. is reportedly on the verge of opening at least two freestanding home improvement centers in southern Florida during the first quarter of 1983, *NHCN* has learned.

John Parson, Sears' vp-home improvement group, through a spokesman "reserved comment" about the reported move, but sources familiar with the $18.2 billion retailer's marketing strategy revealed that Sears would soon be operating 20,000-30,000-sq.-ft. home centers that would anchor strip malls.

The stores, reportedly to be called "Sears Hardware/Home Improvement Centers," would be an addition to the home improvement departments in the chain's 851 stores that stock about 10,000-15,000 sku's in 10,000-12,000-sq.-ft. areas (*NHCN*, Aug. 16). Pending the results, sources claim that Sears might roll out up to 200 home center units nationally by 1986.

In the new units, Sears would extend the basic home improvement product mix of its larger department stores by beefing up its power tool and outdoor power equipment lines, putting greater emphasis on lawn and garden products, bathroom vanities, and roofing accessories.

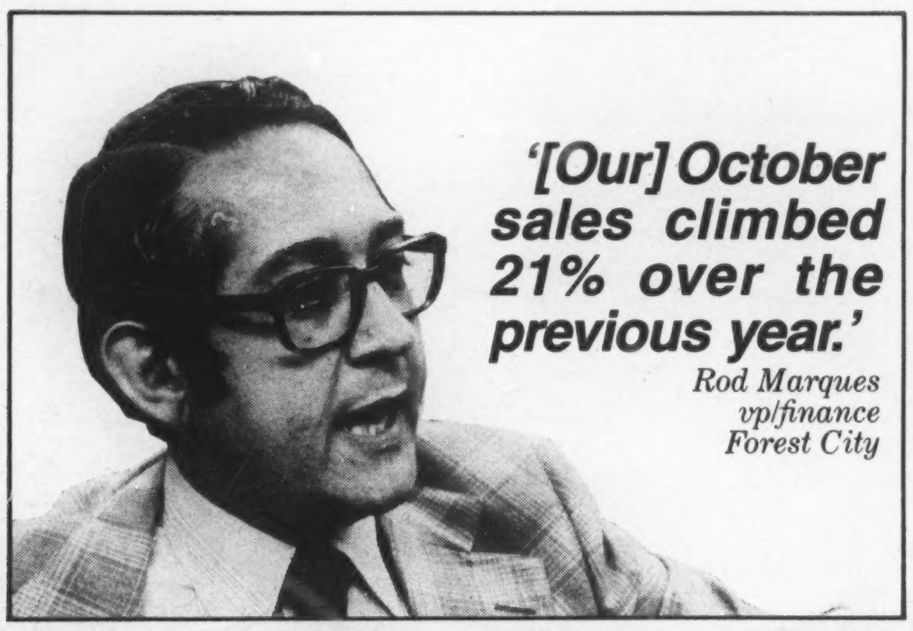
Both articles on Sears were prepared by NHCN *executive editor Wyatt Kash and associate editor John Caulfield.*

It was uncertain at presstime, however, whether the company would stock lumber and building materials in the freestanding stores. Several years ago, Sears experimented with paneling and precut lumber in some of its larger units, but reportedly was dissatisfied with the products' turnover and was unconvinced the overall sales justified the floor space allocation.

However, part of the corporation's overall strategy over the past three years has been to accelerate the "one-stop shop-

(Continued on page 64)

Home centers outperforming mass retailers



'[Our] October sales climbed 21% over the previous year.'

Rod Marques
vp/finance
Forest City

NATIONAL REPORT—The financial community digested October retail sales with a lump in its throat, as lead companies reported declines or miniscule rises in sales, but home center majors chalked up October sales increases topping 20%.

Three of the nation's four top retailers posted sales declines in October while the No. 1 retailer, Sears, achieved a slight 3.8% increase. K mart's sales dipped 2.1%, J. C. Penney's fell 2.4%, and the F. W. Woolworth Company's sales dropped 2% in a month that analysts had predicted would show retail sales increases of 7%-8% over October 1981.

By contrast, home centers took the banner for October sales; 84 Lumber jumped 27%, Forest City was up 21%, Busy Beaver and Knox Lumber both rose 20%, Boise Cascade climbed 13%, and Scotty's nudged up 4%. Other home center chains posted "significant" sales increases in October, but did not disclose exact percentages at presstime.

This bright spot in the retail scene hinges on consumer needs more than merchandising magic. Home center executives cautioned that the sanguine sales tallies of major

(Continued on page 63)

Hechinger's unique style and success has made the giant home center chain an industry trendsetter. NHCN ***probes the reasons behind the rise of this phenomenal company in a special report which starts on page 13.***

Video accessories set hot sales pace

By Molly Brauer
NHCN field editor

NATIONAL REPORT—Video accessories for cable TV and video cassette recorders have barely been on home center shelves six months, but already, dealers report sales are surpassing those of basic television accoutrements such as antennae and wiring.

Among the chains carrying the items, Builders Emporium, Irvine, Calif., now estimates it will garner half a million dollars from video accessory sales during its first year in the program, which began six months ago.

Few home centers carried video accessories prior to last summer.

However, in recent months, Pergament, Handy Andy, Rickel, Home Depot, Lowe's and other major chains began carrying switches for video games, coaxial cables, splitters and adapters, with nearly all reporting "better than expected" sales.

Sandor Garfinkle, president of Gemini Industries Inc., Clifton, N.J., a leading manufacturer of video accessories that supplies Builders Emporium, Rickel, and other chains, commented, "Our home center customers outperform our discount chain customers on this product," adding that "electronics stores traditionally underperform home centers."

He estimated that 60% of the homes in the United States currently have some combination of cable, VCR, video games or home computers.

Home centers seem to have no problem selling video accessories even if salespeople are unacquainted with the products.

"Most of the products are easy to display, and customers are sophisticated," according to Bernie Vengrow, electrical

(Continued on page 64)

NEWSBREAKS

NEW RETAIL SERVICE. Plywood Ranch president Charles Rosen is forming a new company, Associated Home Centers, to provide management, advertising and merchandising services to independent home center retailers. The company will work through building material wholesalers with Rosen serving as president and former Handy Dan and Handy City executive Joe Samulin as vice president.

INSIDE

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